

**REPORT OF THE  
TASK FORCE ON THE EQUITABLE MANAGEMENT  
OF REVENUES AND EXPENDITURES**

**MAY 21, 1990**

**TASK FORCE MEMBERSHIP**

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**TASK FORCE ON EQUITABLE MANAGEMENT OF  
REVENUES AND EXPENDITURES**

**FINAL REPORT**

The Task Force on Equitable Management of Revenues and Expenditures was appointed by the Speaker of the New Jersey General Assembly on January 18, 1990. The Task Force was charged to provide a forum for the free and open discussion of all aspects of taxation and expenditure both at the state and local level of government. The purpose of these forums was not to be the evaluation of the proposed State Budget for fiscal year 1991 but rather to provide an opportunity to any individual or group to suggest ways in which the general pattern of state or local government tax structure or expenditures might be modified to ensure equity and prudence in the distribution of expenditures or the incidence of taxation. The Task Force was not to engage in any scholarly research or data analysis or manipulation, but to make use of the many studies concerning tax structure and expenditures already available. The State and Local Expenditure and Revenue Policy Commission Final Report was specifically identified as a reference source for the Task Force forums.

The Task Force was directed to submit a written report of its activities, findings, conclusions or recommendations in a format that

discusses the major points and suggestions in summary form and without supporting analysis. This document would be used to sensitize members to the thinking and reaction of a wide range of individuals and interest groups as one reference source for the Legislature to consider in modification and reform of the tax structure, the allocation of costs between state and local government, and the purposes for which public funds should be expended.

The Task Force proceeded to carry out its charge through the establishment of four types of discussion groups. It was determined that the free exchange of ideas could best be encouraged if there were a mix of interests representing members of the public, special interests, multiple disciplines, public and private sector, and private citizens, with members of the Legislature requested to recommend participants. Participation in Task Force discussions would not be limited to recommendations by members of the Legislature, and any individual representing a particular viewpoint, whether personal or reflecting the viewpoint of an interest group, would be given an opportunity to participate in the Task Force discussion groups.

**I. Brainstorming Sessions**

A group of thirty-six individuals representing varied professional and personal interests met for a full day exchanging viewpoints and suggestions in four work sessions of one and one half hour each. The participants were assigned to each work session on a random basis, and each work session was comprised of a different mix of individuals, thereby changing the dynamics of the discussion.

**II. Roundtable Sessions**

Five in number, these sessions included individuals representing similar interests. The separate interests represented included educators, business, elected and appointed local government officials, citizen interest groups, and labor unions.

**III. Interviews**

Four in number, these sessions were with Chief Executive Officers and included the Casino industry, public utilities, telecommunications, and savings institutions.

**IV. Open Forum**

In cooperation with the Burlington County Chamber of Commerce an open forum was conducted affording representatives of many private sector business concerns to present ideas and suggestions for consideration by the Task Force.

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Coming out of each of the discussion groups was a series of observations and suggestions concerning tax structure and expenditure of public funds. The task force record of these discussion groups was not verbatim nor with attribution. The ideas and concerns expressed were inventoried by the Office of Legislative Services staff assigned to the Task Force.

What follows here as the report of the Task Force represents the major ideas and concerns offered in the discussion groups. All of the ideas and concerns were offered by the participants with sincerity and with somewhat disquieting, yet refreshing, candor. Some of what follows will not be new to many members of the Legislature. Some of what follows may not be acceptable to some members. Some of what follows may be contradictory or seem inconsistent. All of what follows represents the message that the participants in the discussion groups fully anticipate would be communicated by the Task Force to members of the Legislature.

There were many subjects discussed and many ideas put forth but there were readily discernable common themes running throughout all the discussion groups. Because these concerns were so common and of the broadest concern to all participants, they are highlighted here for particular attention.

Concerning Government Services:

Participants consistently expressed frustration and concern with what appears to be excessive growth in administrative personnel, particularly in the education system, while at the same time services have not improved and the system is not providing a quality education for all children. Streamlining, regionalizing and sharing of many administrative and support services appears prudent to reduce costs. The resulting savings could be used to provide direct student services or for modernization of classroom facilities.

Compliance with regulation and procedures is important, but at what cost? There appears to have been a trend to excessive rules being promulgated by the executive branch of government some of which are difficult to interpret, comply with or are conflicting. The construction industry claims the cost of compliance can add as much as thirty percent to the cost of a residential structure. There is a real need to review the administrative procedure and regulatory agencies at all levels of government.

Concerning Taxation:

The property tax has become an overburden for most individual homeowners in both urban and suburban communities and is a major cost to businesses. An unacceptably high percentage of household income for low and moderate income households is paid in taxes. Property taxes account for a significant portion of that tax burden. Property taxes for low and moderate income households should be limited to a stated percentage of household income. The personal income tax rates should be graduated based on ability to pay, and the resulting revenue directly substituted for property taxes.

The Homestead Rebate program should be continued but qualification should be based on need taking into consideration the proportion of income paid in property taxes.

Concerning Expenditures:

Government officials at all levels of government must remain alert and attuned to opportunities for operational efficiencies and opportunities for increased productivity. Tax increases should not be considered except that all possible economies have been affected and that the new, continued or increased expenditure is for a laudable purpose, not in support of "sacred cows" or special interests. Those expenditures for services on a Statewide basis or mandated by State government should be paid for by State government and not reflected in the property tax. No mandates should be imposed unless they are timed to take effect at the beginning of a fiscal year.

DIRECT PROPERTY TAX RELIEF

Homestead Rebate program should be continued, however the qualification for a rebate should be based more on need with the result of limiting property taxes to not more than a stated percentage of household income.

REVENUE

The sales tax included in a property damage claim filed with any insurer should be paid directly to the State Treasury by the insurer. Many automobile or homeowner insurance claims are based on property damage. These claims reflect the full cost of repairing or replacing the damaged property, including the sales tax. Where claims are paid and the repair or replacement is not performed, the claimant is enriched to the extent of sales taxes not paid.

The proposed income tax increase should be made effective July 1, rather January 1, providing the State Treasury with additional revenue which could be used to continue the Homestead Rebate program and/or provide additional school aid.

Courtesy and "vanity" plates for motor vehicles should be reauthorized on an annual basis with an annual fee paid. Payment of the fee could be included in the annual registration fee.



**REVENUE (CONTINUED)**

Any proposed improvements to land, whether modification or expansion of existing, or to be newly constructed, should be evaluated with regard to municipal, county or State-wide level infra-structure implications and impact fees assessed accordingly.

There must be equity established in a tax rate schedule for married and single taxpayers. Many household costs (including rent or mortgage, property taxes, utilities, food and clothing, transportation) are incurred by singles as well as married persons. To base tax liabilities solely on marital status is unfair.

The Sales tax base should be expanded through repeal of certain exemptions. The repealed exemptions should include admissions and cable television, all tobacco products, advertising services, on-premise consumption of alcoholic beverages, and telecommunication services. There appears to be no equitable or economic justification for the continuation of these exemptions from the Sales Tax.

The State income tax law currently provides for special treatment of "retirement income." This includes the exclusion of any social security or railroad retirement benefits, and a blanket exclusion for the first \$10,000 for married couple filing jointly (\$5,000 to married filing separately) and \$7,500 for a single taxpayer received under a

REVENUE (CONTINUED)

pension or retirement plan. This exclusion should be limited based on total income, with the exclusion not available where total "retirement" income exceeds \$75,000. Retired persons with income in excess of \$75,000 do not require an exclusion from income tax designed to "shelter" retired persons. This exclusion should be retained however for any social security or railroad retirement benefits regardless of total "retirement" income.

In the State budget process it is commonplace for unexpended balances at the end of a fiscal year to be made available in the subsequent fiscal year through language provisions in the annual appropriations act. This practice finds many State agencies with large appropriation balances available for expenditure outside the review process. This practice of reappropriating unexpended balances should be discontinued, with the exception of reserves for contract obligations. This suggestion is in keeping with a "zero base" budgeting system.

The taxation of business income is well established in the tax structure, both federal and State. In New Jersey, if a business does not elect to incorporate, the business income is not directly taxed. If business income is taxed, it seems equitable and fair to disregard the organization structures and tax all business income in the same manner.

REVENUE (CONTINUED)

The New Jersey Gross Income Tax provides for an exclusion of the value of inherited property for any taxpayer which is not conditioned on the relationship to a decedent. The inheritance tax law currently exempts transfers to husband or wife, and no tax is imposed on transfers to parents, grandparents, or children of a decedent. Transfers to a brother or sister, son-in-law or daughter-in-law of a decedent enjoy a liberal exclusion before any tax is imposed. The tax policy decision made by the Legislature to not tax inheritances should be closely reviewed. It appears that the exclusion under the income tax recognized that when that tax was adopted, the inheritance tax was in force for all inheritances and was designed to avoid double-taxation of inheritances. Inherited wealth (unearned income) should be part of a tax base that taxes earned income.

Taxation of the net income of corporations in New Jersey is directly linked to the treatment of that income for federal tax purposes. Therefore, any changes in the federal tax law as it applies to income of corporations has a direct effect on the New Jersey corporate income tax. A close examination should be made of this direct link, particularly as it effects the deduction of interest expenses related to what is popularly referred to as "leveraged buy-outs" and the related allowance for loss carry-forwards.

**REVENUE (CONTINUED)**

A fair share of the total tax burden in New Jersey should be borne by the business community. The avoidance of that fair share of the tax burden by some corporations should not be facilitated owing to a direct link with the federal tax code.

The Legislature should proceed to review the current tax policy as it applies to energy purveyors. This review should have as its goal the equitable tax treatment of all energy purveyors.

The Legislature should review the current tax policy concerning electrical energy co-generation. This review should examine the revenue structure of any entity producing co-generated electrical energy to ensure that the current exemption for a sale for resale is applied without undo enrichment of the co-generator

**EDUCATION SYSTEM FUNDING**

A foundation funding formula for education State aid would be an equitable method of financing education for all children. This approach directs State aid to the per student cost of a quality education.

EDUCATION SYSTEM FUNDING (CONTINUED)

The school day or the school year, or both, should be lengthened to expose students to more classroom instruction as one way to raise the quality standard of education. If this requires paying teachers more or hiring more teachers the end result of higher quality education is well worth the cost.

STATE COST

Any State aid program based on entitlement formulas should be fully funded as a priority before any other State aid programs are funded. State Aid entitlement programs should be a reliable predictable revenue source and not fluctuate based on short-term State budget changes. Underfunding often requires local units to borrow the funds, particularly when State budget decisions are made after local budgets, including the anticipation of State aid as permitted in law, are adopted.

Compliance and regulation costs are represented to add 30% to the cost of construction. This is an unacceptable level of add-on costs. A "fiscal impact note" should be required on all regulations with a procedure for review, comment and revision to limit costs. Immediate steps should be taken to reduce the current cost of compliance.

STATE COST SAVINGS

There appears to be a significant cost savings potential in reducing the amount of contracted services particularly for engineering, social services, and property maintenance. The use of contracted services should be closely examined with a goal to provide more of these services through State employees.

Middle management positions are found in great numbers across State agencies. There should be an immediate effort to reduce the number of middle management positions, and to closely control the use of these positions as longevity rewards rather than as sound management structuring.

An evaluation of service requirements for retirement should be undertaken with a goal of reducing high cost positions through an early retirement program. Early retirement should be used as a staff reduction program, not as a liberalized retirement program.

The costs of the penal system are becoming much too high and a cost reduction program should be developed. Violation of the law is offensive to society and our society requires that violators be punished. There must be some balance reached between the nature of

STATE COST SAVINGS (CONTINUED)

punishment and the high financial cost society pays for incarceration of violators of societal rules. Lower cost alternatives to incarceration must be developed. Annual costs in excess of \$25,000 per incarceration are unacceptable.

Public employees should be required to pay a reasonable share of the cost of fringe benefits provided. This share of cost could be withheld based on a percentage rate and income level similar to unemployment or disability insurance; but should be imposed on employees with annual salaries in excess of \$30,000. The cost of fringe benefits increases dramatically each year and constitutes a substantial public expenditure.

The co-payment or any benefit paid to a public employee should be graduated upward based on annual salary. This should result in a decrease in the cost for the benefit program, and not impose a hardship on any employee.

Health care premium costs could be reduced by carefully screening current enrollees and new enrollees for duplicate coverage. This duplicate premium cost can occur where members of the same family are public employees or where individuals hold more than one position.

**LOCAL COST SAVINGS**

Many administrative activities of school boards and municipal governing bodies are duplicated, thus imposing avoidable costs on taxpayers. This duplication occurs to some extent within municipalities and to a greater extent among municipalities. Regionalized administrative services represents a potential for significant cost savings with no sacrifice in efficiency.

School district consolidation or regionalization would generate significant cost savings. The existence of 611 school districts in a State the size of New Jersey is totally unreasonable.

Many municipal services are duplicated across municipalities and school districts or within municipalities and coterminous school districts. A financial incentive program should be developed to encourage regionalization or consolidation of services. There is a potential cost savings with no loss in efficiency.

**EXPENDITURE LIMITATIONS**

State, county, municipal and school district budgets should be subject to a statutory limitation on expenditure increases. This would represent a direct constraint on the tendency of government at all levels to increase expenditures and then raise taxes to support that spending level.



**ADMINISTRATIVE**

Where mandates are adopted by the Legislature, these should be effective at the beginning of the next local fiscal year to facilitate orderly financing through the local budget process.

State agencies empowered to review and approve proposed rates to be charged by an insurance carrier or public utility should review the proposed rates with a purpose to ensure that administrative costs of the carrier or utility are within prudent limits. This review process should pay particular attention to lease or construction costs for administration facilities, travel, convention, and conference costs, and other similar overhead expenses. It is unreasonable that rates for insurance or utilities reflect costs of accommodations and expenses which exceed those to which a public agency might be restricted. The Legislature should provide all State rate review and approval agencies with statutory authority, where needed, to impose cost restrictions on any entity subject to the rate review and approval process.

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The Task Force on Equitable Management of Revenue and Expenditure has discharged its responsibility as directed by the Speaker. The Task Force provided the forum for the free and open discussion of all aspects of taxation and expenditure, both at the State and local level of government. Participation by interest groups, individuals, government officials and the business community was encouraged and full participation realized. The major ideas, suggestions, and recommendations made in those forums have been reported.

It is now up to the Legislature to pay heed to this report and carefully consider the points raised. No specific recommendations are made by the Task Force. Each member of the Legislature is encouraged to review this report and give more than passing attention to many of the points raised.

Many items in this report could be considered as part of the dialogue concerning the budget proposal for Fiscal Year 1991. If not applicable in that deliberation, then the points should be considered separately on their own merit.